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SUBJECT: PRC/ASEAN: OUTREACH SIGNALS CONCERN OVER RISING
U.S. INFLUENCE

REF: (A) BANGKOK 00002682 (B) BEIJING 001209 (C)
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Classified By: Economic Minister Counselor William Weinstein for reason
s 1.5 (b) and (d).

¶1. (C) SUMMARY AND COMMENT: China's outreach to ASEAN over the past two months, while mainly a repackaging of previous commitments, is intended to deepen Southeast Asian regional integration and respond to perceived rising U.S. influence in the region, ASEAN diplomats in Beijing told Econoffs. Beijing's commitments include a commercial credit fund and an investment fund, though it has attempted to distance itself from the investment fund, presumably in order to reap the commercial benefits of any investment deals while protecting itself against claims of mercantilism, as it ostensibly has ceded control over its investment fund to a "neutral" general manager. END SUMMARY AND COMMENT.

CHINA CONCERNED ABOUT GROWING U.S. INFLUENCE

¶2. (C) China has perceived renewed U.S. engagement in Southeast Asia as a challenge to its influence in the region, according to Thai and Singapore diplomats. Despite public assurances that Beijing welcomes the U.S.-sponsored Lower Mekong Initiative (LMI) as a potential partner for development in the region, Beijing officials have quietly voiced concern about increased U.S. involvement in the Lower Mekong, according to Singapore EmbOff Joel Tan. Thai EmbOff Kanyarat Bhanthumnavin on October 28 separately noted that China had increased its participation in working-level Mekong River Commission Track II meetings (ref A) because "the U.S. LMI has got China's attention."

CHINA'S ASEAN AID PACKAGE

¶2. (SBU) Premier Wen Jiabao at the ASEAN 1 Summit in Thailand on October 24 announced tweaks to a series of pre-existing economic packages, including USD 15 billion in commercial credit for infrastructure projects and a USD 10 billion investment fund, probably also for infrastructure. The PRC raised the preferential portion of the commercial credit package for ASEAN countries to USD 6.7 billion, an increase of USD 5 billion over the originally announced figure. Of the USD 10 billion in investment funding, however, China only planned to raise USD 1 billion in the first year, of which the government would only provide USD 300 million, according to China Ex-Im Bank's Deputy General Manager Lu Yueping, whose Special Financing Account Department was responsible for the project. According to Lu, institutional investors would provide the remaining 70 percent, which would be run as an offshore private equity fund, "just like Carlyle."

¶4. (C) Lu stressed that although transportation

infrastructure was listed as a priority, the fund's focus would extend beyond infrastructure projects, despite media reports and Singapore diplomats' statements that most of the money would be directed toward a Kunming-Singapore or a China-India railroad. (Note: The concept paper provided by Ex-Im listed transportation facilities, public works, telecommunication networks, energy, and resources as potential investment targets. End Note.) As a commercial fund, Lu explained, all investment decisions would be made by a managing team on a commercial basis, and the general partners in the fund would operate independently of China's Ex-Im Bank. Ex-Im would select the general fund manager in a "process completely transparent to the limited partners," according to Lu.

ASEAN DIPLOMATS SING A DIFFERENT SONG

15. (C) Vietnam Embassy diplomats Quach Quang Hong and Thai Thi Xuan Minh on November 13 told Econoffs that China had three priorities in the Lower Mekong Region. First, China wanted to drive development in its southern border provinces of Yunnan and Guangxi through closer economic integration with the Greater Mekong Subregion, which included those parts of southern China through which the Lancang flowed. Second, China wanted to exploit the sub-region's natural resources, again to spur development in Guangxi and Yunnan. Third, China wanted access to the sea through Mekong Delta countries. (Comment: Although Quach did not elaborate on what specific purpose China had in mind for ocean access through the Mekong, a railroad from China to a port on the Bay of Bengal would lower transportation costs for Yunnan and Guangxi-produced exports and facilitate natural resource imports back into Southern China. End Comment.)

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16. (C) Vietnam Embassy's Quach Quang Hong noted that Greater Mekong sub-region countries needed to balance Chinese aid and investment by engaging with other third parties to avoid over-reliance on China. According to Quach, Vietnam welcomed the United States, China, the Asian Development Bank, and other partners' development assistance. China Foreign Affairs University Professor Su Hao on November 13 separately told PolOff that deepened U.S. engagement in Southeast Asia superficially appeared to run counter to Chinese interests, but in reality benefitted China because it gave Southeast Asian countries confidence to deepen regional integration with China without fear of being drawn into a Chinese sphere of influence.

17. (C) Thai EmbOff Kanyarat Bhanthumnavin told Econoffs on October 28 that the Lower Mekong countries viewed development in the region on a project-by-project basis, and focused less on which country was providing the funding. She noted Thailand favored a trilateral cooperation framework, where a developing ASEAN country, a more developed ASEAN country, and a funding partner such as the Asian Development Bank or the UN Development Program were all involved.

18. (C) The Singapore Embassy's Joel Tan said on October 29 that China attached different levels of importance to the various ASEAN members in its regional outreach. China viewed Indonesia as the "top dog" in ASEAN and was working to cultivate closer ties. Vietnam, Singapore, the Philippines, Malaysia and Thailand (in rank order) were first-tier priorities, and Brunei, Cambodia, Laos and Burma were second-tier priorities.

HUNTSMAN